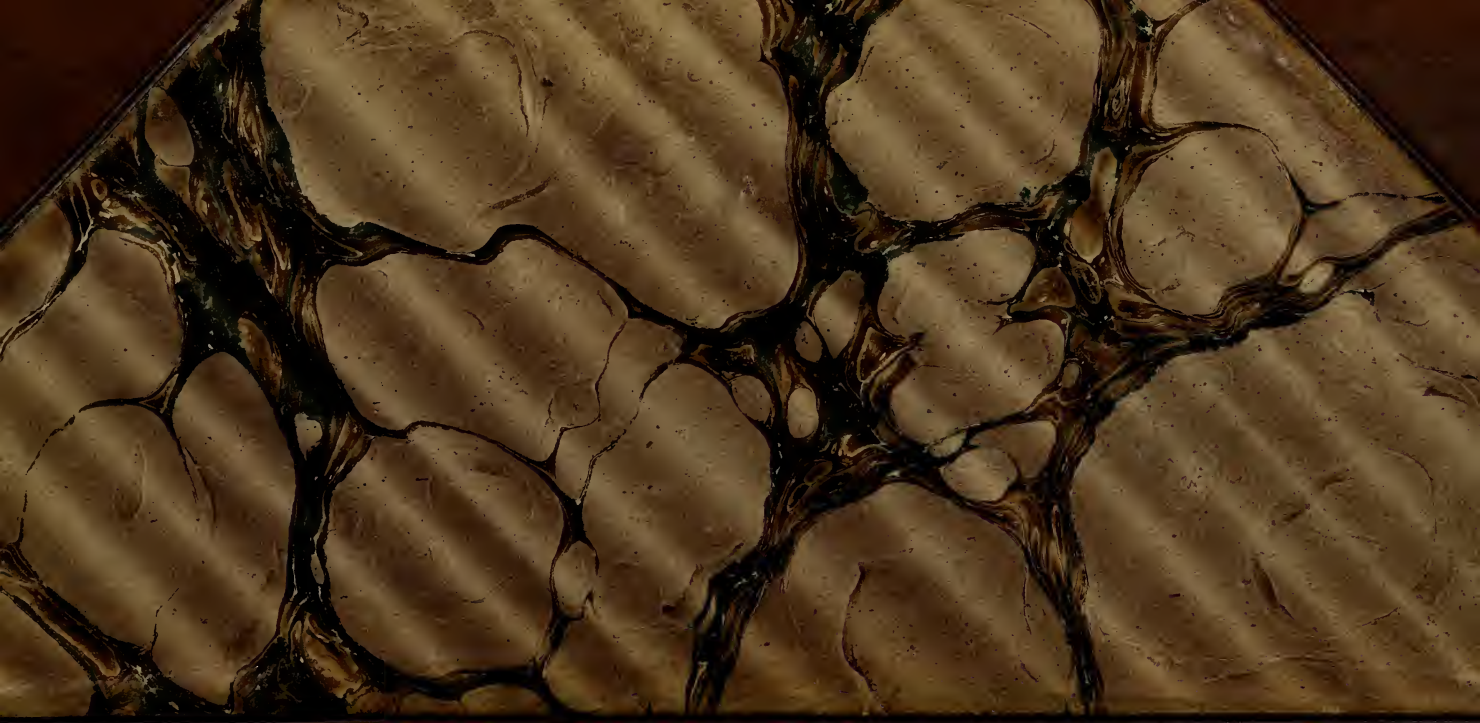

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MR. GLADSTONE'S

METHODS OF

FINANCIAL EXPOSITION CHALLENGED

AND HIS

FIGURES CORRECTED,

Substance of a Speech intended to have been delivered in the House of Commons, by

EDWARD CLARKE, Q.C., M.P.,

With a Memorandum by Mr. Gladstone upon the points in dispute.

(Reprinted, with additions, from the "Nineteenth Century.")

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MR. GLADSTONE'S

METHODS OF

FINANCIAL EXPOSITION CHALLENGED,

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On the 22nd of September, 1884, addressing the members of the Plymouth Conservative Association, I made some observations upon a financial statement which had been made by the Prime Minister at Edinburgh three weeks before, and which he had declared no man could shake.

The criticisms I then made attracted public attention, and my speech was brought to the notice of the Prime Minister by one of his political supporters, who received an answer stating that Mr. Gladstone was prepared to stand by the figures he had used. A later speech of mine on the same subject was also sent to him, and he then said that he believed his figures might be relied upon, and observed, with regard to myself, that I did not appear able to comprehend the system on which the finances of the country are conducted.

Upon the assembling of Parliament I communicated to Mr. Gladstone my intention of bringing the subject before the House of Commons, and eventually I gave notice that I would do so upon the 21st of November, and I obtained the second place for that day. Upon entering the House that afternoon I received a letter from the Prime Minister stating that he should make no answer to my speech, and enclosing a memorandum upon the points which I had raised, and I refrained in those circumstances from addressing the House.

In the following pages will be found as exact a report as I am able to prepare of the speech which I should have delivered, and I append to it the letter and memorandum sent to me by Mr. Gladstone. I have added a rejoinder to Mr. Gladstone's observations, and an appendix containing the official figures on which I rely.

Edward Clarke.

CORRESPONDENCE.

"37, Russell Square, 25th October, 1884.

"Dear Mr. Gladstone,—The newspapers have recently published two letters from your Secretary, written under your authority, in which you have disputed the justice of certain criticisms made by me upon the financial statements contained in your speech at Edinburgh on the 1st September last. I think it will only be fair to myself and to you that I should bring the matter under the notice of the House.

"Of course, I desire to do so in the manner and at the time which will be most convenient for any answer you may be disposed to give.

"I, therefore, propose to move a formal addition to the address, which will give the opportunity for this discussion, and unless I hear from you that there is any other course which you would consider convenient, I will give notice of that addition to-night, and endeavour to bring the matter on at a convenient hour on Monday or Tuesday.—Faithfully yours,

"EDWARD CLARKE.

"The Rt. Hon. W. E. Gladstone, M.P."

"10, Downing Street, Whitehall, October 25th, 1884.

"My Dear Sir,—I thank you for your courteous note, but I am altogether unable to concur in the arrangement you suggest, and I even hope you will substitute some other for it.

"To move an amendment to the Address for the purpose of introducing a discussion which has for its aim to settle a difference of opinion, or of figures, between two members, as to retrospective finance; in short, to use the Queen's Speech and the answer to it as an occasion parallel to the Friday motion of Supply, would be a proceeding (in my view) as inconvenient and as little seemly as it would be unexampled.

"The Committee of Supply will shortly have to be set up, and that, with all the usual opportunities, will become at once available when the House has dealt with the Franchise Bill, assuming that it shares the view of the Government as to the particular method of dealing with that measure. I do not say that there is no objection to the settlement of such a matter in this way, for I think there is; but it is not open to the same grave objections as the introduction of it into the debate on the Address.—I remain, my dear Sir, faithfully yours,

"W. E. GLADSTONE.

"E. Clarke, Esq., M.P."

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'37, Russell Square, 25th October, 1884.

"Dear Mr. Gladstone,—I am much obliged by your letter, and in deference to your judgment I will at once abandon the arrangement I proposed, and will let the matter stand over until Supply has been set up. At the same time I regret the postponement, and I hope that in default of any earlier opportunity, that may be thought an appropriate occasion for the discussion. —Believe me, dear Mr. Gladstone, faithfully yours,

"EDWARD CLARKE.

"The Rt. Hon. W. E. Gladstone, M.P."

House of Commons, 21 November, 1884.

Mr. Edward Clarke,—"I ask the leave of the House to make a personal statement. I have the second place on the notice paper to call attention to the comparative expenditure of the late and the present Government, with especial reference to statements recently made in an address to his constituents by the First Lord of the Treasury. Since I have been in the House I have been honoured with a letter from the First Lord of the Treasury, and it will be better to read it than state the substance of it:—

'10, Downing Street, Whitehall, November 21, 1884.

'My dear Sir,—Seeing you in the House on the evening when my figures used at Edinburgh were attacked and defended, I observed that you did not enter into the debate. But I, having done so once, am not inclined to do it again in case you should raise the question this evening. The question of comparative expenditure is one for Mr. Childers to deal with, but as to my own statements they have in the main been dealt with already; and I now enclose you a paper which deals with other points, and, so far as I am concerned, contains all that I think it needful to say. You are, of course, at liberty to make such use of it as you may think fit.

'Believe me, yours faithfully,

'W. E. GLADSTONE.'"

That being the state of the case I think it will be consulting the convenience of the House if I do not trouble them by making a speech to which no answer will be given. I will put the substance of the speech into print, and, taking advantage of the permission of the right honourable gentleman, I will append to it the long statement with which he has favoured me in manuscript, and I shall take care every Member of the House has a copy.

Substance of Speech intended for delivery in the House of Commons, on 21st November, 1884.

Sir, I rise to call attention, according to notice, to the comparative expenditure of the late and present Governments, with especial reference to certain statements made by the First Lord of the Treasury in a speech delivered by him at Edinburgh, on the 1st September last.

The general question was dealt with in debate in this House on Monday last, but I had no idea that the subject was then likely to be discussed. I had not with me at the House a copy of the right honourable gentleman's speech upon which I shall have to comment, and if I had been prepared to enter into the debate I should not have done so, feeling that it would have been discourteous and unfair to the right honourable gentleman that I should make an attack upon him on Monday when I had given formal notice that it would be made four days later.

But, Sir, the debate on Monday dealt in great measure with questions of policy, and with the justification which might be alleged for the increased expenditure of the present Government.

I do not, Sir, propose to enter upon any question of policy this evening, and I intend to confine myself to an examination of the figures themselves.

The question of comparative expenditure as between successive Governments is undoubtedly an important one, and will always be of interest to the country; and it always has been, especially with the right honourable gentleman, a favourite weapon of party warfare.

But in order that a fair comparison may be made between the expenditure of two Governments, two things are essential: first, that the figures employed shall be accurate; secondly, that they shall be treated upon principles which involve no unfairness to either party.

Now, Sir, when the right honourable gentleman was before his constituents at the Corn Exchange, in Edinburgh, on the 1st September last, he was undoubtedly in a difficult position.

On the 29th November, 1879, he had, in the very same place of meeting, denounced the enormous expenditure of the Tory Government then in power, and had declared that extravagance was 'a vice which appeared to be ingrained in the Tory party of the day.' *

In 1884 he had to apologise for, and to explain, as well as he could, the fact that he himself had become responsible for an expenditure vastly larger than that which he then denounced—an expenditure which, during the last four years, has reached an average of six and a quarter millions more than the average expenditure of the late Government during their term of office.† I own there was no want of courage in the speech which the right honourable gentleman made in September; there was no hesitation in the words which he used; and I will quote to the House the passage in which he then dealt with the financial question, and ask the House to note the repeated declaration of the right honourable gentleman that no man can shake any one of the figures he then put forward. These were his words:—

"I will give you with the utmost exactness a comparative statement which it is quite impossible for them (the Tories) to shake, and which I will convey to you in no very great number of words, avoiding all detail, lumping all large sums of money, and making use of round numbers for the sake of greater simplicity and intelligibility. For the last four years of the late Government the gross expenditure of the country was £329,000,000; in the last four years of the present Government—do not be alarmed—the expenditure of the country has been £342,000,000; that is, apparently, in comparing the two Governments, our account is £13,000,000 to the bad. Let us look a little further into the matter. I must first of all deduct the expenses of collection. You know we have vast establishments connected with post-offices, telegraphs, and so forth. To charge them to taxation would be absurd. I do not therefore take the expense of collection, and the two sums then would be—that for the late Government 297¼ millions, and that for the present Government 306¾ millions. There are still 9½ millions remaining to the bad against us; but I go further, and I deduct the debt we have paid off, because undoubtedly what you spend in the payment of debt ought not to be reckoned as expenditure. We have paid, as I have told you, 25 millions of

* Political Speeches in Scotland. Edinburgh. (*Andrew Elliott*), *p.* 136.

† See Appendix I. A.

debt against 11 millions; and consequently, when we bring this into account, we are no longer to the bad but are to the good by the amount of $4\frac{3}{4}$ millions."

A little later on in the speech he again said,

'So far I have been dealing with matter of fact, and no man can shake one of the figures I have laid before you.'

This, Sir, was something more than the expression of individual opinion. It was a deliberate statement as to facts made by the First Minister of the Crown, and couched in terms which were intended to induce, and no doubt did induce, the people of this country to accept it as an absolutely trustworthy statement.

I propose to show the House that the figures of the right honourable gentleman are incorrect; that he has treated them in a manner which is unfair to his opponents, inconsistent with his own practice, and with the interests of the public service; and that even if we assumed or admitted that his figures were correct, and his mode of treating them reasonable, he would still have committed the very serious blunder of charging twice over as against his opponents a sum of nearly 10 millions of money. And I now proceed to give the House, with only so much detail as is absolutely necessary, the figures and authorities by which I support that specific statement.

The first figures to which I will direct attention are those contained in the following sentence:—

'For the last four years of the late Government the gross expenditure of the country was 329 millions; in the last four years of the present Government it has been 342 millions.'

These figures, Sir, are not correct: the gross expenditure of the last four years of this Government has not been 342 millions, but at the very least $345\frac{3}{4}$ millions. If members will consult the 'Statistical Abstract' for the last fifteen years, issued by the Board of Trade in June of the present year,* they will find a column giving the total gross amount of the actual public ex-

* Statistical Abstract for the United Kingdom in each of the last 15 years, from 1869 to 1883. (*Eyre & Spottiswood.*)

penditure of the United Kingdom, and they will find that that column gives the gross expenditure of the last four years at 344½ millions.*

But they will also find that that figure needs correction. Down to the year 1882 the payments on account of the Military and Naval services which were defrayed out of Extra Receipts were included in the total of the national expenditure. But in 1883 only the arrears, about £500,000 of those payments were so included, and in 1884 they were omitted altogether. This change in the mode of keeping the public accounts was authorised by an order of the Treasury issued in 1881 in consequence of a Report made in that year by the Committee of Public Accounts. But that Committee is certainly not responsible for the way in which their recommendation has been carried out.

I find at paragraph 13 of their Report the following words:—

'Your Committee learn with satisfaction that the Treasury have in view the adoption of independent measures by which Parliament may be duly informed of any material variations in the state of the balance of the stocks of those departments.'†

It is obvious that if no such information is given to Parliament it will be in the power of the Military and Naval authorities dangerously to reduce their stock of material in order to defray expenses for which Parliament has given no authority. But so far as I can discover, the independent measures which were then promised by the Treasury have never been taken at all. Again, on the 5th of April, 1883, the right honourable gentleman the Member for Westminster (Mr. W. H. Smith) suggested that it was desirable that the finance accounts should show the amount of the extra receipts now taken in aid of the Army and Navy expenditure; and the Chancellor of the Exchequer (Mr. Childers) said that the suggestion was a very proper one, and added, 'these amounts will be shown in the return.'‡

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* See Appendix I. B.

† Third Report of Committee of Public Accounts, 27th July, 1881.

‡ Hansard, 277, 1513.

I have, Sir, before me a copy of the Finance Accounts for the year ending March 1884, presented to Parliament in July of this year, and there is no trace in that account of this item of Extra Receipts, and no information given as to the Military and Naval expenditure which has been defrayed out of the sums not voted by Parliament. But, Sir, whether the Treasury order of 1881 be right or wrong, there can be no question that payments made for the Military and Naval services out of moneys obtained by the sale of stores or horses, from the purchase of discharges, or from the rents of the lands and buildings which are let by the Naval and Military authorities, are just as much part of the national expenditure, and require just as much to be brought under the cognisance and control of Parliament, as if they were defrayed out of money raised by taxation; and the only way of ascertaining the gross expenditure of the last four years is to add to the expenditure shown upon page 7 the sum which under that order of 1881 has been kept out of the accounts. I do not know how to find out what that sum exactly is, but it amounts at the very least to $1\frac{1}{4}$ million. Thus the gross expenditure of those years was $3\frac{3}{4}$ millions more than the figures given by the right honourable gentleman.

The fact is, Sir, that the right honourable gentleman has taken the figures for the last four years from the table on page 11 of the Statistical Abstract. But that table does not profess to give the gross expenditure; its heading states that it is 'revised so as to exclude the payments made from the Army and Navy extra receipts.' And I need scarcely point out that a table from which payments to the amount of £850,000 per annum are excluded cannot be a table of gross expenditure.

But the right honourable gentleman having gone to the wrong table does not accept the figures of that table for both sides of his account. The Liberal expenditure there given in the line of 'total expenditure' is rather more than $342\frac{1}{4}$ millions, but the Conservative expenditure is given as $326\frac{3}{4}$ millions and not 329.* Thus there is a balance against the Liberal

* See Appendix I. c.

Government of $15\frac{1}{2}$ millions. The right honourable gentleman reduces this to 13 millions by adding to the Conservative expenditure the amount which in their four years of office was expended out of loans raised for the erection of Fortifications and Barracks. I dispute, Sir, the justice of charging that against the Conservative Government. The scheme of raising loans for this expenditure was devised by a Liberal Government in which the right honourable gentleman held the post of Chancellor of the Exchequer twenty-four years ago, and it happened that the last year of that expenditure was also the last year of the existence of the late Government.

The Conservative Government were not the authors of the scheme, and the expenditure was in the nature of capital expenditure, which could not with any reason be charged against the accounts of the year in which it is incurred. And it is clear from the mode in which the accounts have been kept, from the fact that at page 7, and again at page 11, those amounts are excluded from the statement of annual expenditure, that it has never been considered reasonable that they should be charged as part of the ordinary expenditure of each year.

But, Sir, as against the right honourable gentleman, I have upon this point the strongest of all authorities, and that is his own declaration and practice.

I have said that the right honourable gentleman was Chancellor of the Exchequer when the Act was passed in 1860 which authorised the raising of these loans. In the year 1861 he, as Chancellor of the Exchequer, made his financial statement to the House, and I find in it the following passage:—

> The expenditure which was estimated and provided for in the regular votes for the year, and entirely apart from the Act which was passed towards the close of the session, for erecting with borrowed money certain fortifications, amounted to £73,664,000; and, inasmuch as the Act relating to fortifications was by common consent treated as a matter entirely distinct from the ordinary financial arrangements of the year, I shall not further refer to it, except casually on one or two points, or in any manner include its provisions in the statement I have to make to-night.*

* Hansard 162, p. 546.

From that year, Sir, down to the year 1880, the expenditure upon Fortifications and Barracks out of loans has never by any Chancellor of the Exchequer been included in his statements to the House of Commons as part of the expenditure, either of the previous year, or of the year for which he was asking Parliament to make provision.

The years from 1861 to 1864 were years of memorable finance. The right honourable gentleman was Chancellor of the Exchequer, and his Budget speeches in those years, to three of which I listened from the Reporters' Gallery of this House were considered so important that they were republished in the volume I now hold in my hands.* In neither of those years did the right honourable gentleman include in the expenditure of the year the sum raised for Fortifications, although those sums were considerable ; and when at the end of the four years he summed up the result of the finances of that period, he mentioned the £2,070,000 which had been spent upon Fortifications, and mentioned it as 'special separate expenditure' which he did not take into calculation until he had to deal with the balance of debt.

There is a later authority still from the right honourable gentleman. In the year 1880 he returned to the Exchequer, and on the 4th of April, 1881, he brought forward his Budget. He said, 'I find that the expenditure for the year 1879-80 was £84,105,000, and for the year 1881, £83,108,000,'† If honourable members will look at the Statistical Abstract they will find that that amount of £84,105,000 did not include a quarter of a million which had been spent upon Fortifications, but which the right honourable gentleman at that time, true to the consistent practice which he himself had established and defended, did not include as part of the expenditure of that year.

But, Sir, this expenditure ceased in 1880. The charges, which amounted to $2\frac{1}{2}$ millions in the last four years of the

* Financial Statements, 1861-4 (*Murray*).
† Hansard 260, p. 578.

Conservative Government, have in the last four years not been raised by loan, and have only amounted in these years to £200,000, and in the difficulty of making any defence for his great expenditure the right honourable gentleman takes advantage of this, and reversing the practice which he himself had followed during all those years, adds the expenditure on Fortifications to the ordinary expenditure of the years 1877-80 to improve the state of his account against the Conservative party.

But, Sir, even with Fortifications added, there was a balance of 13 millions against the right honourable gentleman which in some way he had to get rid of. It happens that during the last four years the cost of what I may call the Revenue Services has very largely increased. During the four years of the Conservative Government the administration of these services cost $31\frac{1}{2}$ millions, during the last four years it has cost $35\frac{1}{4}$ millions.

In ordinary circumstances the right honourable gentleman would not have been very proud of this result; but in the exigencies of his position, he seized upon it with delight, and proceeded to reduce the balance against him by $3\frac{3}{4}$ millions by deducting what he calls the expenses of collection. Sir, that phrase seems to me to be a most inaccurate and misleading description. The Post Office and Packet Services, in which nearly 3 millions of the increase has occurred, are in truth great trading establishments, costing several millions per annum, and there is just as much room for extravagance in their administration as in any other branch of the public service. The revenue of those departments increases largely year by year. In the last financial year it was $1\frac{3}{4}$ million more than in the year which ended in March 1880, but the advantage to the public in the relief of taxation was £50,000 less.

I do not, Sir, stop to discuss how far the operations of these departments have justified so large an increase of expenditure. That inquiry is not material to my present purpose. My own opinion is, that in the establishment of the Parcels Post the

State has undertaken a trade, its adoption of which was not required by public necessity or convenience; and I think it has undertaken it upon terms which cast an excessive burden on the public purse. But whether the expenditure in this department be wise or not, it amounts to a sum so large, that to withdraw it from consideration, as the right honourable gentleman desires to do, in comparing the expenditure of successive Governments, would, in my belief, be fatal to all hope of administrative economy.

But again, Sir, I yield for the moment and inquire what is the result of permitting this, as I think, unjustified deduction. There remains a balance against the Liberal Government of $9\frac{1}{4}$ millions. But, Sir, the right honourable gentleman's next step is a far more brilliant effort of ingenious fallacy. He wipes off this adverse balance of $9\frac{1}{4}$ millions, and triumphantly declares that he converts it into a balance in his favour of $4\frac{3}{4}$ millions, by taking credit for his expenditure upon the payment of debt.

It is important, Sir, to examine the words which he used at Edinburgh, and I confess I think they were adopted without his usual caution. He said:—

'I deduct the debt we have paid off because undoubtedly what you spend in the payment of debt ought not to be reckoned as expenditure. We have paid 25 millions of debt against 11 millions.'

Sir, the proposition in the terms in which the Prime Minister stated it is not true.

It is not a fact that the present Government has 'spent, that is given out of pocket, in payment of debt' 14 millions more than their predecessors did in the same space of time.

The right honourable gentleman has quoted the effect produced as if it were the amount expended, but they are two entirely different things. With a complicated system of finance like ours, where large sums are paid every year in the form of Terminable Annuities, it is not practicable to ascertain, with respect to each payment, the sum which is strictly interest, and separate that from the amount which remains applicable

to repayment of capital In every case the proportion depends upon the age of the annuity. Throughout the life of a Terminable Annuity the annual payment continues the same, but in the earlier years the effect of each annual payment upon the capital value of the debt is very much smaller than in the later years.

Now, Sir, the actual excess of payment made by the present Government is only $4\frac{3}{4}$ millions, not 14 millions. During the years 1877-80 the late Government were called upon to find for the total services of the debt $113\frac{3}{4}$ millions. During the last four years the present Government has on the same account expended $118\frac{1}{2}$ millions.

The right honourable gentleman has profited by the financial policy of his predecessors, and if honourable members will refer to the Parliamentary paper lately issued upon the motion of the honourable baronet the Member for the University of London (Sir John Lubbock), they will find a column which states the amount of National Debt cancelled year by year by the automatic operation of Terminable Annuities.* The amount shown by that return to have been extinguished during the four years of the Conservative Government by this automatic process was 17 millions. The amount extinguished during the last four years has been 24 millions, or an excess of 7 millions over the previous period, an excess to obtain which the present Government have not been called upon to bear a single shilling of extra charge. But, Sir, if any further demonstration be required of the fallacy by which the right honourable gentleman has allowed himself to be misled, it will be found by deducting from the total expenditure, as he gives it, the amounts respectively spent by the two Governments upon the service of the debt. The account will then stand, after allowing the right honourable gentleman to make all the deductions which I have disputed and discussed, that the Conservative Government expended $183\frac{3}{4}$ millions and the Liberal Government $188\frac{1}{4}$ millions. Not one shilling of these

* Return relating to the National Debt, Parliamentary Paper 3 of Session 2. 1884. See Appendix II.

totals that I have just given was expended upon the debt, either in payment of interest or in repayment of principal, and they leave the balance, upon the right honourable gentleman's own method of calculation, at $4\frac{1}{2}$ millions against the present Government, instead of $4\frac{3}{4}$ millions in its favour.

But, Sir, there is one more characteristic of this extraordinary financial statement, whose figures no man can shake, to which I desire to call the attention of the House. It is that if all the right honourable gentleman's figures with which I have dealt so far were admitted or assumed to be correct, it would be found on examination that he had charged twice over as against his opponents a sum of very nearly 10 millions of money. The right honourable gentleman claims to take 25 millions as the amount by which he has reduced the debt, and in a former passage of the Edinburgh speech he said, 'In the four last years of the Beaconsfield Administration they paid off £10,984,000 of National Debt,' and the difference between these sums is the 14 millions which he claims.

But, Sir, upon referring to the Parliamentary paper No. 367 of Session 1882, honourable gentlemen will find that the late Government paid off $21\frac{1}{2}$ millions of debt, and on the other hand raised about $10\frac{1}{2}$ millions.

The right honourable gentleman would undoubtedly be justified in deducting the debt so raised when striking the balance between the two Governments, if he had not, in fact, already charged against his opponents almost the whole amount. Thus, with regard to Fortifications which were paid for out of loans raised for that special purpose, the right honourable gentleman has already added $2\frac{1}{2}$ millions, the amount which they cost, to the expenditure of his opponents. Now he charges against them that $2\frac{1}{2}$ millions over again as debt which they raised; and thus in making his balance between the two Governments, he charges the Conservatives with a sum of 5 millions in respect of Fortifications which cost half the amount.

Honourable gentlemen will detect the fallacy in a moment, if they consider how the account would have stood if no money

had in those years been spent in Fortifications at all. The total expenditure would then have been 295 millions instead of 297½ millions, and as no debt would have been created to pay for the works, the total debt extinguished by the Conservative Government would have stood at 13½ millions instead of 11 millions.

The same observation applies to a yet larger sum. The Conservative Government spent £7,300,000 more than they took from the people in taxation, and of course they had to borrow that amount. Of the 10½ millions of debt created by them £7,300,000 was raised for this purpose, and the right honourable gentleman charges them with it when he calculates the balance of debt paid off. But this very sum of £7,300,000 was expenditure not raised by taxation, and therefore has already been included in the total gross expenditure of the Conservative Government. Again, Sir, the fallacy is shown by a very simple test. Suppose the Conservative Government had raised that amount by taxation instead of creating debt, the amount of their annual expenditure would have remained unaltered, for that does not depend on the source from which the money is obtained, but, according to the right honourable gentleman's novel and fantastic arithmetic, the result would have been that, as they raised no debt on this account, they would, in comparing their expenditure with that of their successors, be better off to the extent of £7,300,000. And thus, taking these two items, I think I have made it absolutely clear that these two sums, amounting together to nearly 10 millions of money, have, by a mere blunder of book-keeping, been charged twice over against the Conservative Government.

Sir, I have now endeavoured to put before the House the grounds upon which, two months ago, I ventured publicly to attack that statement which the right honourable gentleman declared no man could shake. My speeches on the matter have, I know, been brought to the notice of the right honourable gentleman, but elsewhere he has not condescended to any answer, except the statement that he believes his figures may be relied

upon, and that I do not at all comprehend the system on which the finances of the country are conducted.

I hope the House will not think I have made an undue claim upon its attention, in desiring to bring this controversy to issue where alone the question between the right honourable gentleman and myself can be fully examined by those who are most familiar with the subject.

I should not, of course, have assailed the right honourable gentleman's statements without a thorough and careful examination of authoritative public accounts, and I now with very great confidence leave the entire question to the impartial consideration of this House.

MR. GLADSTONE'S MEMORANDUM.

Paper dealing with the points raised by Mr. E. Clarke, M.P., in his recent Letters.

I.

A. I find that according to the account in the Statistical Abstract (page 7) the expenditure of the late Government in 1877-80 was 330 millions, and not 329 millions; and that the expenditure of the present Government in 1881-84 was 344 millions, and not 342 millions.

B. You take your figures from an account intended to show whether there was a surplus or deficiency on the year, and necessarily based on actual payments; and by so doing you take no account of an alteration recently made in the system of accounts, whereby extra receipts collected by the War Office and the Admiralty are no longer paid into the Exchequer—an alteration recommended by the Public Accounts Committee, of which Sir Henry Holland was Chairman. I take my figures from the account at pp. 10 and 11, which places each year's account on the same footing, and is, therefore, the *only* account useful for comparison.

(The question at issue between us here is a very simple one. From the national accounts of the last two years, certain classes of expenditure have been left out which were before included. To obtain the correct amount of the total national expenditure I have added the sums so left out. Mr. Gladstone, on the other hand, has deducted that class of expenditure from the previous years, and he thus reduces the apparent expenditure of the Government from $345\frac{3}{4}$ millions to 342 millions. As the larger sum has been actually spent, it can hardly be contended that the smaller correctly represents gross expenditure. E.C.)

II.

A. I demur to the inclusion as expenditure of the outlay on Fortifications and Local Barracks which has been met by loan, and which, amounting in the last four years of the Conservative Government to £2,300,000, happened to be very heavy.

B. I include it for more reasons than one:—1. There is no difference between those works and other works which appear in the ordinary estimates.

2. Borrowed money spent is as much expenditure as spent revenue.

3. To make this clear, the charge, certainly not large, has since 1880 been met out of revenue and treated like any other ordinary expenditure.

A. But the loan out of which the expenditure under this head in 1877-80 was defrayed, is being paid off by sums which appear in the national accounts. To debit the country with the sums applied out of the loan and the sums expended in repaying the loan, would be to charge them twice over.

B. This argument is untenable. I deduct from each side the amount of debt paid off. Therefore I do not debit the country with the sums subsequently expended in paying off the loan. Moreover, the late Government did not merely borrow what they required for Fortifications and pay off the loan at once; on the contrary, the present Government are now paying it off.

(Mr. Gladstone says that there is no difference between the outlay out of loan for Fortifications and the ordinary expenditure of the country. A reference to pages 11 and 12 of this pamphlet will show that this is quite a novel opinion on his part. I agree that all money spent must be counted in expenditure whether it is borrowed or not, but when a sum is laid out in capital expenditure, and is raised by loan to be repaid in a certain number of years, it should be charged to the years in which the payments are made, and not to the single year in which the expenditure is incurred. In this case an expenditure was incurred by the Conservatives in pursuance of the scheme for which Mr. Gladstone himself in the year 1860 was responsible. E.C.)

III.

A. I maintain that there is a fallacy in your contention that, whereas the Conservatives only paid off 11 millions of debt, the Liberals have paid off 25 millions in four years. The Conservatives spent in interest, management, and reduction of debt $113\frac{3}{4}$ millions during their last four years of office; the Liberals have spent on this account in a similar period $118\frac{1}{2}$ millions.

B. You would leave it to be inferred that the difference between these sums is the difference between the two Governments; but you omit the fact that the Liberals have borrowed nothing, and that the Conservatives borrowed largely. Your contention apparently is that, in stating the financial position of a country or of an individual, you may leave out of question any sums which may have been borrowed during the period in question. If you pay off £1000 of debt with one hand and borrow £800 with the other, you cannot take credit for having diminished your debt by £1,000. After this transaction, you owe £800 therefore you have only reduced your debt by £200.

I showed on the fairest basis and latest approved mode of stating the liabilities of the Government, that in 1880 they showed a reduction on the four previous years of 11 millions, and in 1884 a reduction of 25 millions. If you want to dispute

this fact you must dispute the figures, and until you have shown that they are wrong, the fact must remain; and while the fact remains unshaken, I am entitled to deduct the amounts by which the debt has been reduced from the unproductive expenditure of both Governments.

A. I still hold that to debit the country with the loan expenditure and also with the sum expended in repaying the loan would be to charge the amount twice over. I take my original illustration: If I borrow £100 in March, and spend it in buying a boat, and then in October I repay the loan, my expenditure is £100 and not £200.

B. I think, as a matter of fact, you would in such a case find yourself debited in your pass-book with an additional expenditure of £200, viz. £100 for paying your boat-builder, and £100 for repaying your bankers six months later. But that is of little moment. Where you are in error is, in supposing that what the Government borrowed for Fortifications in March it repaid in October. The Government only raise a loan for charges which their annual income will not meet. The Government are now paying off what the late Government borrowed for Fortifications. So the contention about a double charge is contrary to facts.

(Mr. Gladstone's argument here rests upon the fallacy that the "amount spent in reduction of debt" and the "amount by which the debt is reduced" are convertible terms. But they are not. The effect of our system of Terminable Annuities is that in each year the debt is reduced by several millions more than the amount which the Government is called upon to provide for that purpose. I have shewn at page 14 that in the last four years the debt has been reduced, by the automatic operation of Terminable Annuities, by an amount of 7 millions more than it was reduced by the same process during the previous four years. Mr. Gladstone claims to deduct this 7 millions from the Liberal expenditure as if the Government had actually paid it in reduction of debt, whereas in fact the whole sum has been spent in other ways. I think the last two paragraphs of Mr. Gladstone's memorandum are absolutely amazing, as coming from a man of

his ability and experience. It will be observed that he quite needlessly introduces the banker, and assumes that the £100 is in the first instance borrowed from him. The introduction of the banker only complicates the question; but Mr. Gladstone is wrong with regard to the pass-book. If I borrow £100 from my banker in March, and therewith buy a boat, there will appear at that date on one side of my pass-book a credit "loan" £100, and on the other side my cheque to the boat-builder, also £100. When I repay the loan in October I shall be debited with £100, and therefore the amount will have appeared in my pass-book, not twice, but three times, once on the credit side and twice on the debit, leaving my expenditure upon the transaction £100, and not £200. I should have thought that even Mr. Gladstone would have admitted that no jugglery of book-keeping could have been imagined to prove that that boat cost me £200. But he goes on to say that I was in error in supposing that what the Government borrowed in March it repaid in October. I never supposed anything of the kind. Whether the loan incurred to buy the boat was repaid in the year in which it was borrowed, or in the next year, or in the year after, has nothing whatever to do with the cost of the boat, except so far, indeed, as interest on the loan may have to be added. The new Government is paying off in Terminable Annuities, and by a small sum in each year, the loans which the late Government raised for Fortifications. But that is allowed to them in the excess of their expenditure upon the National Debt, and what Mr. Gladstone does is, with respect to the money spent by the late Government on Fortifications, first to charge what they spent, next to charge the same sum over again because they borrowed it, and so to make out that they spent exactly twice the amount which the Fortifications actually cost. It is not surprising that he did not desire to have this matter discussed in the House of Commons, where I do not believe he could have found a single man of financial experience to have accepted this transparent fallacy. E.C.)

APPENDIX I.

THE following figures are taken from the "Statistical Abstract for the United Kingdom, in each of the last fifteen years, from 1869 to 1883," issued from the office of the Board of Trade in June, 1884. This Abstract may be obtained (price 11d.) of Messrs. Hansard & Son, 13, Great Queen Street, W.C.; Messrs. Eyre & Spottiswoode, East Harding Street, Fleet Street; Messrs. A. & C. Black, Edinburgh; and Messrs. Thom & Co., or Messrs. Hodges, Figgis & Co., Dublin.

A

Total gross amount of actual public expenditure of the United Kingdom (page 7):—

Conservative	1875—£74,328,040 1876—£76,621,773 1877—£78,125,227 1878—£82,403,495 1879—£85,407,789 1880—£84,105,754	Average £80,165,346.
Liberal - -	1881—£83,107,924 1882—£85,472,556 *1883—£88,906,278 *1884—£86,999,564	Average £86,121,580.

* To these figures a sum of at least £1,250,000 must be added as explained at page 9 for expenditure, which, under the Treasury Order of 1881, has been left out of the account. The result is:—

Average Conservative Expenditure—£80,165,346.
Average Liberal Expenditure—£86,434,080.

B

Comparative Gross Expenditure in four years of the late and the present Government. (Abstract, p. 7.)

Conservative.	Liberal.
1877—£78,125,227	1881—£83,107,924
1878—£82,403,495	1882—£85,472,556
1879—£85,407,789	1883—£88,906,278
1880—£84,105,754	1884—£86,999,564
£330,042,265	£344,486,322

C

Total Expenditure from 1877 to 1884 (Revised so as to exclude, in accordance with the system now adopted, the Payments made from the Army and Navy Extra Receipts). (Abstract, page 11.)

Conservative.	Liberal.
1877—£77,197,884	1881—£82,132,075
1878—£81,628,709	1882—£84,705,503
1879—£84,626,500	1883—£88,395,327
1880—£83,329,021	1884—£86,999,564
£326,782,114	£342,232,469
	£326,782,114

Excess of Liberal Expenditure—£15,450,355

D

Total Expenditure, exclusive of cost of collection (page 11):—

Conservative.	Liberal.
1877—£69,280,497	1881—£73,909,450
1878—£73,852,859	1882—£76,183,406
1879— £76,675,731	1883—£79,466,901
1880—£75,331,884	1884—£77,292,215
£295,140,971	£306,851,972

APPENDIX II.

Table showing what amount in each year of the Annual Reduction of Debt is due to the Automatic operation of Terminable Annuities, and the net annual charge in each year upon the Consolidated Fund for the service of the National Debt, from Parliamentary Paper 3 of Session 2, 1884, issued 12th October, 1884:—

ANNUAL CHARGE FOR THE SERVICE OF THE NATIONAL DEBT.

Date.	Annual Issues from the Exchequer for the Service of the National Debt.				† Receipts applicable as a set-off against the Charge for Debt.	Net Annual Charge (11-12)
	Interest.	Repayment of Capital.*		TOTALS.		
		By Automatic Operation of Terminable Annuities.	Sinking Funds, forming part of the Annual Charge, and Suez Bonds Paid off.			
	£	£	£	£	£	£
1877	23,351,569	3,999,578	641,687	27,992,834	951,040	27,041,794
1878	23,402,562	4,177,656	832,532	28,412,750	1,107,421	27,305,329
1879	23,542,513	4,397,988	703,682	28,644,183	1,251,363	27,392,820
1880	23,496,263	4,543,441	723,170	28,762,874	1,413,268	27,349,606
1881	23,528,053	5,621,503	425,708	29,575,264	1,406,647	28,168,617
1882	23,279,712	6,026,859	359,374	29,665,945	1,378,139	28,287,806
1883	23,035,334	6,296,793	346,971	29,679,098	1,509,194	28,169,904
1884	22,902,406	5,981,210	767,910	29,651,526‡	1,460,693	28,190,833

* The old Sinking Fund and sundry other amounts are also applicable to the reduction of debt, but do not form part of the annual charge.

† These receipts consist mainly of interest on loans for Local Works, interest on purchase-money of Suez Canal Shares, and the amount payable by the Bank of England out of the profits of issues.

‡ Exclusive of £1,914,633 issued to redeem the Indian Loan Annuity.

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